



Short Sale Transactions

And The Escrow Process

Mortgage delinquencies are an unfortunate sign of these difficult economic times. As a result, foreclosures, distress sales, and short sales continue to be abundant. There are things you can do to help prepare yourself for a short sale – things that can make the process smoother for everyone involved.

▼ What Is A Short Sale?

This term refers to a transaction in which the sales price will not generate enough money to cover the payoff of the Seller's existing loan and closing costs. Working with a willing Lender, a Seller may be able to negotiate a payoff amount that is less than the actual amount ordinarily required to pay off the loan. The Lender agrees to accept the equity available in the property and the Seller receives no proceeds from the sale of the property.

▼ Why Would A Seller Or Lender Find A Short Sale Appealing?

Homeowners benefit by avoiding the long-term negative consequences to their credit associated with a foreclosure. Lenders benefit because they can avoid the substantial expense of a foreclosure proceeding. Most Lenders do not want to own the properties used as collateral for their loans, because the maintenance cost and taxes add to their cost and decrease profitability.

▼ Working With The Lender

Determine the Lender's guidelines. You can anticipate a very specific list of required documentation that begins with a copy of the Listing Agreement or some other form of written authorization from the Seller.

Additional requirements include:

- ▶ Strong evidence of financial hardship to the Lender
- ▶ Pay stubs or other proof of current income
- ▶ Two years of tax returns and W-2s
- ▶ Latest personal checking account statement
- ▶ Copies of all past-due secured and unsecured debt notices
- ▶ Copy of the latest mortgage statement
- ▶ Copy of the current tax bill
- ▶ Copy of a current appraisal, including comparable sales in the area
- ▶ Copy of the purchase agreement

▼ Unique Escrow Elements In A Short Sale

The short payoff is a condition of closing that must be sent out in both the Purchase Agreement and Escrow Instructions. When the Lender's payoff demand is received in escrow, it is likely to include restrictions on closing costs and payoff amounts to other Lenders and creditors. Throughout the escrow process, the Seller and real estate agents should work closely with the Lender. Your escrow officer can advise you immediately of any significant changes or discrepancies. Remember that the Lender will establish a minimum payoff figure it is prepared to accept, and its willingness to adjust that final figure may vary.



What Are The First Steps?

The Seller should contact the Lender to find out whether the Lender is willing to consider a short payoff arrangement. The process of convincing a Lender to reduce its loan balance to close the transaction is often challenging, requiring the negotiating skills of a seasoned agent. Be mindful of the additional work that short sales require of both the agent and the Seller.

Ask your escrow officer to prepare a "net sheet" as soon as possible and update it regularly as information becomes available. This is a detailed estimate statement of the payoffs and closing costs that will be charged to the Seller at close of escrow.



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